

Legislative Budget Analysis

September 2007 Special Session



Presented to the Sixtieth Legislature

Submitted by the
Legislative Fiscal Division

Legislative Finance Committee

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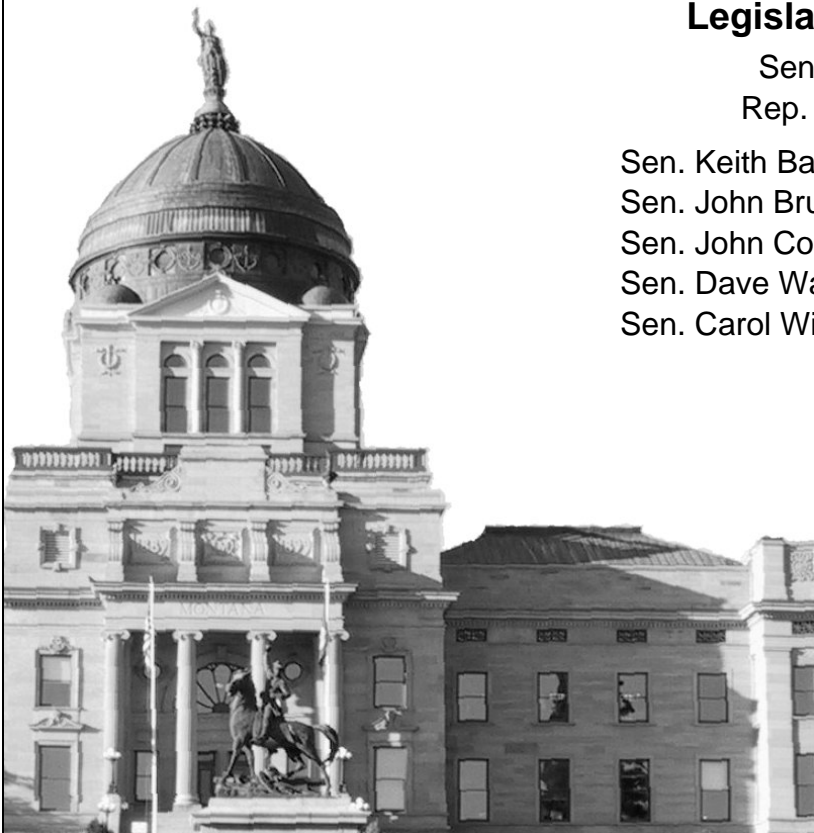
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CLAYTON SCHENCK

September 4, 2007

Members of the 60th Legislature:

In accordance with 5-12-302, MCA, I submit for your consideration the Legislative Fiscal Division budget analysis for the September 2007 special session. It is our goal that this report provide the fiscal information necessary to assist committees and legislators as you deliberate the fiscal issues on wildfire suppression funding included in the Governor's special session call.

This report includes the following:

- Background information on the events leading to a special session
- A summary of the Governor's special session call and budget proposal
- Background information and a staff analysis of the wildfire suppression issue
- A projection of the General Fund balance as of the end of the 2007 and 2009 biennia

Your staff of the Legislative Fiscal Division look forward to being of service to the legislature during this special session. We are here to assist legislators in obtaining the best possible fiscal information for making the difficult decisions that lie ahead. Please feel free to call on us to assist you in your deliberations.

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

TABLE OF CONTENTS

Table of Contents	iii
Introduction.....	1
Purpose of Report	1
Background – How did we get here?	1
The Governor’s Call.....	2
Governor’s Budget Proposal.....	3
Introduction.....	3
Wildfire Suppression Costs.....	3
Wildfire Suppression Funding – LFD Analysis	5
Introduction.....	5
Analysis	5
General Fund Analysis.....	17
Introduction.....	17
2007 Biennium General Fund Status.....	17
2009 Biennium General Fund Outlook	22
Other Fire Related Budget Reference Documents.....	27
Appendix A – Governor’s Call.....	29



INTRODUCTION

PURPOSE OF REPORT

The 60th Legislature has been called into special session to deal with the cost of wildfire suppression during the 2009 biennium. The legislature does not directly appropriate funding for wildfire suppression, and high costs incurred in the 2007 fire season have prompted the Governor to call a special session to request appropriation authority to pay these costs. The purpose of this report is to provide to the legislature:

- A summary of the Governor's special session call and budget proposal
- Background information and an LFD analysis of the wildfire suppression funding issue
- A summary of the general fund outlook and available unobligated general fund

BACKGROUND – HOW DID WE GET HERE?

The legislature has the sole constitutional authority to authorize (appropriate) funding for state programs and services. The 60th Legislature passed a \$4 billion general fund budget for the 2009 biennium in the May 2007 Special Session, and left a projected general fund reserve of approximately \$184 million. An additional \$61 million was received by the end of FY 2007, as projected during the session by the Legislative Fiscal Division. Along with other adjustments, the legislature has a minimum projected unobligated general fund balance of \$ 207 million as a reserve for unanticipated events.

The legislature has never provided upfront funding through a legislative appropriation for fire suppression costs, and the 2007 session was no exception. Therefore, while there are available funds of over \$200 million, there is a need for legislative authority to pay for the wildfire costs. The 60th Legislature did consider upfront funding for wildfires, but ultimately no upfront funding was provided. The Governor in his original budget submission had requested an increase in the Governor's emergency fund from \$16 to \$25 million, and requested \$10 million in a direct 2009 biennium appropriation to fund wildfires. However, the bill to increase the emergency fund statutory appropriation did not pass. In addition, the administration negotiated with legislators to eliminate funding for wildfires in exchange for other budget priorities on the last day of the special session. By mutual agreement between the legislature and the executive, the final approved legislative budget did not include any direct funding for wildfires.

Although the legislature has never provided upfront funding for fire suppression costs, the state has usually been able to pay for fire costs, partially by using Governor's emergency funds, and partially by using a convoluted process of moving appropriations between programs and fiscal years on a temporary basis, and through general fund loans. They then request reimbursement through a supplemental appropriation in the next legislative session. This practice has avoided special sessions in the past, albeit with some close calls, and in two cases due to a large bailout by the federal government. The issue becomes one of cash flow, and in years of high fire costs, the availability of sufficient resources to borrow from until the next legislative session.

The cost of wildfire suppression has risen dramatically in the past ten years, and the average state cost for wildfire suppression has grown to over \$18 million per year. Projections are that firefighting costs will continue to increase, and that the state will have more severe fire seasons. With increasing cost and severity, the non-budgeted policy for wildfire costs cannot be sustained in the future. The 2007 wildfire season has been severe, and particularly since it occurred in the first year of the biennium, it makes it more difficult to use accounting tactics to cover the costs until the 2009 session. The Governor concluded that a special session was necessary to pay 2007 fire costs, and issued the call on August 27.

THE GOVERNOR'S CALL

The Governor's call to the 60th Legislature for a special session is presented in its entirety in Appendix A of this report.

In summary, The Governor's call limits the special session to the following issues:

1. Appropriations necessary and anticipated for fire suppression, disaster response, and recovery activities in fiscal years 2008 and 2009
2. Additional spending authority for emergencies and disasters and elimination of time restrictions applicable to declarations of disaster and emergency during fire season
3. The "feed bill" appropriation for the operations of the special session

The Governor's budget proposal for appropriations to fund items 1 and 2 above is \$61 million general fund and is contained in HB1. The Governor's budget proposal is summarized in the next section of this report.



GOVERNOR'S BUDGET PROPOSAL

INTRODUCTION

The Governor's proposal for the special session is shown below and described and analyzed in more detail later in the report. Overall, the proposal includes \$61 million general fund for wildfire suppression and other emergencies. These appropriations will be contained in HB 1.

WILDFIRE SUPPRESSION COSTS

The executive's proposal for wildfire suppression costs for the 2009 biennium includes a \$9 million increase in the biennial statutory appropriation for the Governor's emergency fund, and \$52 million in direct appropriations for wildfire suppression in the 2009 biennium. The \$61 million total consists of the following items:

- An increase in the Governor's emergency fund from \$16 million per biennium to \$25 million
- \$39 million in FY 2008 for the incurred and estimated remaining costs of the 2007 fire season to the Department of Natural Resources
 - Of the \$39 million, a portion would be used to reimburse the emergency fund for expenditures to date
- \$3 million in FY 2008 to the Department of Military Affairs for 2007 fire costs
- \$10 million in FY 2009 to the Department of Natural Resources for estimated 2008 fire season costs
 - This estimate is based on the assumption that the emergency fund authority would be increased to \$25 million and would be reimbursed for 2007 fire costs, leaving a total of \$25 million in the emergency fund for fires and other emergencies, plus the \$10 million direct appropriation, for a potential of \$35 million in total fires/emergencies

In addition, the Governor is requesting a change in statute to allow an exception to the 20 and 30 day time limits on Governor's emergency declarations for wildfires during a fire season.



WILDFIRE SUPPRESSION FUNDING – LFD ANALYSIS

INTRODUCTION

Montana has incurred obligations for fire suppression costs of over \$84 million for FY 2008. Of this total, the state must pay over \$36 million (as of this writing), as well as provide cash for a significant portion of the remaining costs until reimbursement is secured from other responsible parties (primarily the federal government). The legislature did not establish an appropriation for fire suppression costs during the special session of May 2007. While fire suppression costs are considered to be a bona fide use of the Governor's \$16.0 million emergency fund when a disaster has been declared, this amount is not sufficient to pay all of this year's costs, and must be available for other emergencies and a portion of next year's fire costs as well.

ANALYSIS

This portion of the analysis examines the following, and raises a number of issues for legislative consideration:

- How costs of fire suppression are funded
- The history of fire costs, and the factors causing the increase in costs
- Current year estimated costs
- The Governor's request
- Other considerations for the legislature on fire costs

FIRE SUPPRESSION FUNDING

A three step process has been utilized to pay for fire suppression costs in previous biennia. The Department of Natural Resources and Conservation (DNRC) manages this process to assure that cash flow needs are met and that sufficient appropriation authority is maintained to operate the department.

The Governor's emergency fund - The Governor has a statutory appropriation of \$16.0 million for the biennium for emergencies, of which fire suppression is one of many allowed uses. The Governor must declare an emergency before this money can be used.

Supplemental appropriations - In addition to the Governor's emergency fund, the Department of Natural Resources and Conservation (DNRC) utilizes general fund and some state special revenue appropriated for operations of divisions of DNRC in the second year of the biennium to fund fire suppression until the legislature can meet in regular session and:

1. Pay any outstanding fire suppression costs; and
2. Replace the funding for other operations of the department that was used to pay fire suppression costs.

General Fund Loan - DNRC also has the ability to borrow general fund against future federal payments to subsidize cash flow. As federal payments are received, the department pays back the loan.

In previous severe fire seasons, fire costs were managed by the above process, or the state received ample up front federal funding to avoid a special session. For example, during the FY 2001 fire season Federal Emergency Management Agency (FEMA) support was provided up front and reduced the pressure on the state to maintain the funding stream. Shortly after the FY 2004 season, the federal government provided two \$25.0 million grants under the Job Growth and Tax Relief Act to each state to assist with state revenue shortfalls created by federal tax changes. Governor Martz utilized the grants to cover state fire costs, essentially avoiding a special session. The FY 2007 fire season was funded through a supplemental appropriation during the 2007 legislative session. Since the increased costs were in the second year of the biennium, the legislature was able to provide the supplemental appropriation prior to when the majority of the bills became due.

CURRENT YEAR ESTIMATED COSTS

The Department of Natural Resources and Conservation (DNRC) provides a weekly update of fire suppression costs, including billable portions, FEMA declarations, and cost share data. As of September 2, 2007 the state has incurred \$101.8 million in fire suppression costs, of which \$35.6 is billable to other federal entities and \$24.3 million is the responsibility of FEMA for cost assistance on three fires. This results in a net state cost of \$41.8 million.

This information is summarized in Figure 1. Of the \$41.8 million state responsibility, \$14.1 million has been paid through the Governor's emergency fund, leaving a balance of \$27.7 million.

However, fire season is not over. Several large fires are still burning on the Montana landscape. These fires will continue to utilize resources until mop up has been completed. An estimate provided by DNRC indicates another \$3.1 million could be incurred prior to the end of the season, bringing the total state cost to \$30.8 million. Figure 2 summarizes this estimate, and includes a brief description of the assumptions used to arrive at the estimate.

Figure 1	
Fire Season Costs for FY2008 Through 9/2/07	
Estimated Costs:	\$101,767,020
Federal Funding Pending:	
Federal Cost Share	(35,646,993)
FEMA Assistance	(24,338,375)
Total Pending	<u>(59,985,368)</u>
State Responsibility	\$41,781,652
Paid from ER Fund	<u>(14,076,738)</u>
Remaining Obligation	<u>\$27,704,914</u>

Figure 2	
FY 2008 Estimated Fire Season Costs - State Responsibility	
Source: Department of Natural Resources and Conservation	
Responsibility as of 9/02/07	\$41,781,652
<u>Assumptions:</u>	
<u>Large Fires still Active</u>	
Jocko Lake - state share	2,082,724
Black Cat - state share	100,000
Total Estimate for Active Fires	<u>2,182,724</u>
<u>Continuing Costs:</u>	
Initial Attack through October	500,000
Spring fire Season	500,000
Total Estimate for Continuing Costs	<u>1,000,000</u>
FY 2008 Estimated Costs	\$44,964,376
Paid from ER Fund	<u>(14,079,738)</u>
Remaining Estimated Obligation	<u>\$30,884,638</u>

Traditional funding mechanism will not work

The state share of this fire season exceeds the capacity of the fire suppression funding process used in previous years. Figure 3 illustrates that if the traditional method was utilized to fund suppression for FY 2008, the department would be short \$22.1 million in authority to process payments or accrue outstanding debt prior to the end of FY 2008. The legislature, through their appropriation power, must address this shortfall prior to the end of the fiscal year.

Figure 3	
Estimated State share for FY 2008 Traditional Funding Mechanism	
Estimated State Share (Figure 1)	\$44,964,376
Governor's Emergency Fund - Statutory Authority	<u>14,000,000</u>
Remaining State Share	\$30,964,376
Supplemental Transfer of General Fund authority from FY2009	7,861,111
Supplemental Transfer of State Special Revenue authority from FY2009	1,000,000
Unfunded state share	<u>\$22,103,265</u>

GOVERNOR'S REQUEST

The Governor is requesting, through HB 1: 1) funding for wildland fire suppression; 2) an increase in the emergency fund; and 3) a change in statute to allow the wildland fire emergency declarations to be exempted from the 20 and the 30 day time limits. The FY 2008 funding request is summarized in Figure 4. The following discusses each of these components, and addresses several issues. This is followed by a discussion of issues with the scope of the Governor's request, and its timing.

Funding for Fire Suppression

The Governor's is requesting funding for DNRC and the Department of Military Affairs for fire suppression in FY 2008 and FY 2009.

Appropriations to the Department of Natural Resources and Conservation

The Governor is requesting \$39.0 million of general fund for DNRC for FY 2008 and \$10.0 million for FY 2009 for "wildfire suppression, and for disaster response and recovery activities in Montana."

The FY 2008 request is based upon the executive's estimate that the state share for the fire season would be approximately \$39.0 million. From this \$39.0 million, the department is to return \$11.0 million to the Governor's emergency fund for costs already paid, leaving \$28.0 million to cover DNRC's estimated obligations.

The FY 2009 request provides funding for potential wildland fire suppression costs. This request is \$9.1 million lower than the average annual cost to the state. The assumption can be made that any additional costs would come from the Governor's emergency fund, if needed and if funding was available.

Figure 4	
Governor's Proposal For FY 2008	
Estimated State Obligation	\$30,884,634
Repay emergency fund	14,079,738
Total Obligations to Date	\$44,964,372
Appropriation of General Fund	
DNRC Appropriation	39,000,000
DMA Appropriation	3,000,000
Appropriations	<u>42,000,000</u>
Remaining obligation	
Emergency Fund	<u>\$2,964,372</u>

**LFD
ISSUE****Appropriation May Not Be Sufficient To Cover DNRC Costs**

The executive is estimating the state responsibility for fire season to be \$39.0 million. Factors that may not have been adequately addressed in this estimate are:

- Timing - fire season is not over
 - The estimate does not include any adjustment for new starts that exceed capacity of initial attack. (Initial attack is the aggressive actions taken by the first resources to arrive at a wildland fire to protect lives, natural resources, and property, and prevent further expansion of the fire.)
- Active fires
 - The estimate has been adjusted for the large active fires, such as Jocko Lake, Black Cat, Chippy Creek and Sawmill. However, the estimate does not consider growth in any other existing fire
- Initial attack activities
 - Initial attack consists of air support and ground support. The hourly cost for a helicopter is \$1,075 per hour. Additional costs would be incurred for ground support. This estimate may not be sufficient to fund all initial attack.
- Change in federal reimbursement habits
 - The current estimate is based on \$35.6 million in support from various federal entities through cost share agreements. As the federal government institutes stricter policies, the state may not recover this full amount.
 - The projected \$24.3 million in FEMA assistance is based on 75 percent of allowable costs within the declaration period. If not all costs are allowed, this reimbursement rate may be lower.
- Updated costs estimates will most likely be provided during special session. However, if the above issues are not adequately addressed, the estimate may not be adequate. Utilizing such an estimate as the basis for granting appropriation authority may result in the department seeking a supplemental transfer or accessing the Governor's emergency fund to pay any other costs above the \$39.0 million.

Appropriations to Department of Military Affairs

The bill includes a request to appropriate \$3.0 million for costs incurred in activating the National Guard. The department would return this \$3.0 million to the Governor's emergency fund as these costs have already been paid with emergency dollars. This appropriation does not leave any authority for new costs. It is assumed that any additional costs would be paid from the emergency fund.

**LFD
ISSUE****Appropriation May Not Be Sufficient To Cover National Guard Costs**

- The executive is estimating the state responsibility for fire season to be \$3.0 million. The \$3.0 million appropriation will not be sufficient as DMA has already incurred \$3.1 million in costs which have been paid through the Governor's emergency fund. The National Guard, at this writing, is still deployed to assist with security. Recent conversations with DMA has indicated that the National Guard will incur at least \$3.5 million in costs for FY2008

Updated costs estimates will most likely be provided during special session. However, if the above issues are not adequately addressed, the estimate may not be adequate. Utilizing such an estimate as the basis for granting appropriation authority may result in the department seeking a supplemental transfer or accessing the Governor's emergency fund to pay any other costs above the \$3.0 million.

LFD ISSUE

Purpose Is Not Consistent With Historical Fire Bills

Appropriations in HB 1 are for the stated purpose of "wildfire suppression, disaster response and recovery activities in Montana". However, there is a question about whether the stated purpose is broad enough for the costs contained in historic fire bills such as:

1. Pre-suppression activities and rehabilitation costs; and
2. Interstate compact activities.

Pre-suppression and rehabilitation costs

Fire bills have historically contained costs for pre-positioning of resources to areas within the state that are at the greatest risk and for rehabilitation after suppression is completed. Rehabilitation includes such items as repairing fences that were cleared or dozing berms that were created during active suppression. It does not include reforestation costs.

Interstate Compact Costs

Since Montana participates in a mutual aid agreement, there are times when DNRC incurs costs for assistance for out of state disasters. In return, during fire season, Montana receives support from other states or provinces. In the FY 2006 "fire" bill were costs incurred for support provided in the aftermath of hurricane Katrina in Louisiana. Those costs were later paid by FEMA. If another such incident occurred in FY 2009, the appropriated funding could not be utilized to support Montana incident personnel out-of-state.

The legislature may want to clarify the intent of the appropriation.

Increase to Governor's Emergency Fund

HB 1 requests that the Governor's emergency fund be increased from \$16.0 million to \$25.0 million. This fund is statutorily appropriated to the Governor for declared disasters and emergencies for the biennium. The funding is not accessible without a declaration in place and is only available for costs incurred within the declared period of time. The fund is not solely dedicated to the suppression of wildland fire, and is provided to respond to any declared disaster or emergency.

Per 10-3-103, MCA disaster and emergencies are defined as follows:

Disaster means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or artificial cause, including tornadoes, windstorms, snowstorms, wind-driven water, high water, floods, wave action, earthquakes,

landslides, mudslides, volcanic action, fires, explosions, air or water contamination requiring emergency action to avert danger or damage, blight, droughts, infestations, riots, sabotage, hostile military or paramilitary action, disruption of state services, accidents involving radiation byproducts or other hazardous materials.

Emergency means the imminent threat of a disaster causing immediate peril to life or property that timely action can avert or minimize terrorism, or incidents involving weapons of mass destruction.

Expenditures from the emergency fund during the 2007 biennium are summarized in Figure 5.

Figure 5	
Governor's Emergency Fund Expenditures	
2007 Biennium	
<u>Department of Military Affairs</u>	
FY 2006 National Guard Fire Training	\$37,000
Emergency Management Assistance Compact (EMAC) - Hurricane Katrina	30,069
Spring floods in 2005 - post disaster	7,000
Spring floods in 2005 - post disaster	209,040
Winter Storm 2005 - post disaster	26,242
Helena Prisoner Escape Jan 2006	6,109
FY07 Wildfires	549,150
Glendive Spring Storm	32,406
Total Military Affairs	<u>\$897,016</u>
<u>Department of Natural Resources and Conservation</u>	
FY 2006 Wildfire	\$688,022
FY 2007 Wildfire	13,000,000
Total DNRC	<u>\$13,688,022</u>
Total Utilization	\$14,585,038
Remaining Authority as of June 30, 2007	\$1,414,962

LFD ISSUE

Permanent Increase in the Governor's Emergency Fund May Not Be Warranted at this Time

The critical factor of this session is to provide spending authority to DNRC and DMA to allow the agencies to pay state costs of the FY 2008 fire season. Increasing the Governor's emergency fund is a long-term decision that has a greater policy effect than just the 2009 biennium, and is not critical to funding the current shortage.

During the 2007 regular legislative session, HB 150 was introduced to increase the emergency fund to \$25.0 million. That bill was tabled in committee. Examining the same issue in a time limited session may not be in the best interest of the state.

If the provisions to repay the emergency fund for FY2008 expenditures and provide \$10.0 million for fire suppression costs in FY 2009 remain in the bill, up to \$26.0 million will be available to DNRC and DMA in FY 2009 from the combination of the \$10.0 million appropriation and the replenished \$16.0 million emergency fund. If this is not sufficient, the 2009 Legislature would be able to provide a supplemental appropriation to fully fund fire suppression costs prior to the bulk of the bills coming due.

Fire suppression costs are regular, relatively predictable costs to the taxpayers of Montana. Permanently increasing the emergency fund does not create a specific appropriation for the purpose of suppressing fires. The legislature may wish to consider whether reasonably predictable costs should be paid from an emergency fund.

Change in Declaration Process

Statute currently sets time limits for disasters and emergency declarations at 20 and 30 days, respectively. In order to continue the declaration past the time limit, either a presidential declaration must exist or the legislature, through joint resolution, must declare the emergency still exists. The bill as written would allow the Governor to declare a wildland fire emergency or disaster at any time during the period of July through October and be exempted from the 20 and 30 day time limits.

LFD ISSUE

Change in Declaration Period Allows Open Access to Emergency Fund

The bill provides for the Governor to declare a wildland fire emergency or disaster during the months of July through October without being subject to a statutory ending date. With this change, the Governor would maintain all powers associated with the emergency declaration, including access to the emergency fund, until such time that the Governor declared the emergency over or the legislature passed legislation to do so.

Access to the emergency fund has been controlled through the declaration process. If a state of emergency or disaster is declared and then not ended in an appropriate time period, the emergency fund is at risk of paying unwarranted claims. The legislature may wish to consider the impact of the open ended declaration period on the emergency fund.

OTHER ISSUES WITH THE GOVERNOR'S REQUEST

This section addresses two primary questions:

1. Was a special session necessary at all?
2. Was an immediate special session necessary, and what issues arise as a result?

Was a Special Session Necessary?

While there is an albeit convoluted and unbudgeted process in place to manage cash flow for fire seasons, for this particular season it is insufficient (see page 7). The department has only \$45.3 million in general fund appropriation authority for the biennium. While the department could request a supplemental transfer of authority from FY 2009 to FY 2008, the department would not be able to meet the original obligations associated with the appropriation authority, such as water rights or conservation work if this was done. It would also not provide sufficient funding for the department to remain operating in FY 2009 until such time as the 2009 legislature could provide a supplemental appropriation.

Therefore, it is extremely likely that a special session of the legislature would have had to be called prior to the regular 2009 legislative session.

Was an Immediate Special Session Necessary? - Related Issues

An immediate special session (eight days notice) was not necessary in terms of immediate cash flow issues. If major new fires do not erupt, DNRC has sufficient resources to cover fire costs through this fire season.

1. When the wildland fire season begins, DNRC begins to incur immediate costs associated with an increased payroll and local vendor costs. As resources such as retardant planes, specialty helicopters, and hot shot crews are ordered, the cost of suppression rises, but the department does not immediately receive a bill for services. In the past, the department has been able to maintain cash flow because of this time lag. The department receives and reviews large bills typically in

November and December, but those bills are often not paid until January or February. This is due to the complexity of the bills and the need to ensure that Montana is paying only what is owed. The department needs increased general fund authority when the department needs to pay the large bills or accrue the large costs on the state accounting system.

2. The general fund loan option has not been exercised by DNRC. The department has the ability to obtain a general fund loan by pledging cost share and FEMA reimbursements as repayment for the loan. The Department of Administration could authorize a temporary loan if there is reasonable evidence that there is income sufficient to repay the loan within one calendar year. If this option was exercised, DNRC could borrow against the \$59.9 million owed by the federal government. The amount of the loan could vary with the need for cash flow. Utilizing this option would have provided the state more time to determine the actual cost of fire season and the need for additional authority prior to convening a special session.

There are a number of issues owing to the immediate timing of this special session.

LFD ISSUE

Costs are Unknown

As stated earlier, the total costs are estimated, but are relatively unknown until cost settlement activities are completed by the department and its federal partners. An appropriation that is not sufficient to cover state costs will force the department to utilize the Governor's emergency fund, or utilize a supplemental transfer. For a further discussion, see the issue on page 8.

LFD ISSUE

Timing Does Not Allow Other Options to be Considered

The short notice of the session (only eight days) does not allow policymakers ample time to consider other options to funding fire suppression. Given the current proposal, the legislature has only the option to balance how much should be directly appropriated to the agencies during the 2009 biennium, and how much the Governor's emergency fund should contain.

The legislature does not have the opportunity, during this special session, to fully discuss other options such as a wildland fire suppression fund, increased forest protection fees, other adjustments to the emergency fund, or obtaining an insurance policy to provide a long-term fix. The proposal limits the fix to the 2009 biennium.

Summary

The need for the special session was not critical in terms of timing. The ability to obtain a general fund loan by pledging federal reimbursements was not utilized. This action would have provided for additional cash flow to the department and delayed the special session. The delay would have assisted the legislature by having more accurate data regarding the actual state cost of this fire season and therefore, appropriate accordingly.

RELATED ISSUES

There are a number of issues related to fire suppression the legislature may wish to consider, including:

1. Changing realities of the costs of fire suppression and their causes
2. Whether DNRC has appropriate resources for fire suppression
3. The wildland/urban interface and who should pay
4. Our relationship with our federal partners

Changing Realities of Fire Suppression

As stated earlier, the Governor's proposal addresses the issue of fire suppression for the 2009 biennium, only. However, increasing fire costs and the causes of those increases mean that the current method of funding fires is no longer a tenable option.

Average Fire Suppression Costs

A significant event rising from this fire season is the impact the estimated total cost has had on the average state cost of fire suppression. The Legislative Fiscal Division calculates this cost by analyzing the last seven years of fire bills, removing the high and low seasons and dividing by five. The current fire season and the FY2007 fire season have increased the average from a reported \$7.0 million per year to a current estimate of \$19.1 million per year. Figure 1 below provides a snap shot of historic fire costs.

Increased Costs

These are several reasons why the state costs of fighting wildland fires are increasing, beyond the general severity of fire season. Two major reasons are decreased federal assistance, and fire locations.

Decreased FEMA assistance

During the 2000 fire season (FY 2001), Montana was provided blanket approval for financial assistance from the head of the Federal Emergency Management Agency (FEMA) when he toured the fires with Senator Max Baucus. Later in FY 2004, the state received FEMA assistance based on the established criteria wherein 50 structures were threatened. For the FY 2007 fire season, FEMA raised that threshold to 100 structures. This change is a result of FEMA standardizing threshold criteria across the nation. The change in the approach to and criteria for emergency assistance has resulted in the state receiving substantially less financial support from FEMA.

Each FEMA declaration is date and time sensitive. The state is eligible for 75 percent assistance of allowable costs within the declaration period. At this point in time the amount of FEMA reimbursement is estimated at \$19.3 million. Should FEMA disallow certain costs, reimbursement will be lower.

Fire in the Wildland Urban Interface

The wildland urban interface is that area where structures and other development meets or intermingles with undeveloped wildland. When homes, outbuildings and commercial buildings are in the path of wildland fire, fire line tactics become more limited and additional resources are utilized to protect those structures in addition to those deployed to suppress the fire. A fire in a region without (or with few) buildings is generally easier and less costly to suppress.

An example of this can be made from this fire season in the comparison between the Jocko Lake and the Chippy Creek fires. The Jocko Lake fire is located in the wildland urban interface where, at one time, 3,100 structures were threatened. The fire has burned 34,932 acres as of August 27 and is anticipated to have a total cost of \$35.0 million. Chippy Creek, on the other hand, has burned 99,090 acres as of August 27. However, with less than 100 structures threatened it is anticipated to cost \$15.0

Figure 6 Average Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
2001	\$54,925,104	\$44,784,017	\$10,141,087
2002	16,417,193	3,549,700	12,867,493
2003	6,710,688	4,684,927	2,025,761
2004	79,579,965	44,582,841	34,997,124
2005	3,969,096	989,945	2,979,151
2006	8,302,312	3,240,042	5,062,270
2007	61,000,318	21,290,928	39,709,390
2008 (through 8/26/07)	\$101,767,020	\$59,985,368	\$41,781,652
7 year average	\$39,678,085	\$19,760,536	\$19,917,549
5 year adjusted average	\$34,402,095	\$15,509,923	\$19,123,086

million. The Jocko Lake fire has a per acre cost of \$1,002, while Chippy Creek is \$157, in part due to the difference in the landscape where the fire occurred.

**LFD
COMMENT**

Additional Special Sessions Will Become More Likely

The average cost of fire season has risen to \$18.4 million per year. This amount is too high to handle through the standard mechanism of supplemental transfers and general fund loans. It is likely special sessions will become the norm, rather than the exception if the legislature continues to leave wildfire cost unfunded.

Does DNRC Have Appropriate Resources?

DNRC provides direct protection on 5.2 million acres of forested landscape and provides mutual aid response to another 45 million acres. Adequate resources are critical for the program to perform.

There are two types of resources utilized by DNRC to maintain a fire suppression program. The first is equipment and the second is trained personnel. The two have to mesh to provide the most optimal fire fighting program for the state. If the department is limited in personnel, engines are not driven and helicopters do not fly. This directly impacts the department's ability to suppress fires while they are small and less costly.

For example, DNRC has five trained pilots for the five department helicopters that are utilized for initial attack and mutual aid response. Because of staffing limitations, the helicopters are not available on a 24 hour, seven days per week basis. Additional resources would be required in order to staff the helicopters on 24/7 basis.

Growth in the Wildland Urban Interface

The wildland urban interface is where homes and development meet or intermingle with undeveloped wildland. While some private forested land owners have implemented fire-wise principles in building and landscaping, there are many that have chosen not to implement these principles. Incentives to private landowners to change their practices are limited. Forest protection fees charged to landowners in the DNRC direct protection area are the same regardless of property conditions. Insurance premiums are not adjusted for all fire-wise principles.

The legislature may wish to consider the fiscal impact of wildland fire suppression due to growth in the wildland urban interface through interim discussion. This may include change in the application of the forest protection fee, working with the insurance industry for increased incentives, and review of subdivision platting in the urban interface. These issues should be considered in any long term funding proposals.

Relationship with Federal Partners

The United States Forest Service (USFS) is one of the state's largest partners in fire suppression and forest management. USFS practices have been widely discussed within the media and the natural resource community. The policy decisions of the USFS have a direct financial bearing on the state. A recent report indicates the USFS may be significantly altering the way it does business.

The US Department of Agriculture (USDA), Office of Inspector General (OIG) released an audit report in November 2006 on the USFS Large Suppression Costs. In this report, the USDA-OIG recommends, and the USFS concurs, the following:

- “Suppression costs need to be fairly shared by State and Local Governments - A majority of USFS cost is directly linked to protecting private property in the wildland urban interface. The forest service has not renegotiated their agreements with state and local governments to address the added responsibility of protecting homes in the wildland urban interface.
- Use of Wildland Fire should be expanded to control costs of future fires – Wildland fire use (WFO) lets naturally occurring fires burn accumulated hazardous fuels that increase the likelihood of unusually large expressive wildfires. WFO and fire suppression are to be considered equally to control costly wildfires.
- Forest Service Cost Containment needs to be strengthened – The lack of fiscal controls in fire suppression indicates the US Forest Service needs to increase the accountability of line officers and incident commanders as well as collection of more meaningful data to evaluate wildland fire suppression efforts.”

Other recent reports from the United States Government Accountability Office (GAO) also press for changes. A few of those reports are:

- Wildland fire Management – Timely Identification of Long-Term Options and Funding Need is Critical (GAO-05-923T)
- Wildland Fire Management – Lack of Clear Goals and Strategy Hinders Federal Agencies’ Efforts to Contain the Costs of Fighting Fires (GAO-07-655)
- Wildland Fire Suppression – Better Guidance Needed to Clarify Sharing of Costs between Federal and Nonfederal Entities. (GAO-06-896T)

If the federal government moves towards increased cost sharing and changes operational habits, Montana will be directly impacted. The legislature may wish to consider preparing for the fiscal impacts of federal forest management and fire suppression policy changes on Montana taxpayers.

LFD ISSUE

Related Issues Need to be Addressed During the Interim

The factors that drive up the state costs for wildland fire suppression will not disappear at the end of the special session. This includes:

- Appropriate resources for fire suppression
- Growth in the wildland/urban interface
- Impact of federal changes

The legislature may wish to consider

- Establishing and appropriating funding for a joint interim work group of the Environmental Quality Committee and the Legislative Finance Committee to discuss funding options with the goal of bringing potential solutions to the 61st Legislature
- Establishing an interim work group to review previously proposed funding ideas and collaborate with LFD staff to develop new options



GENERAL FUND ANALYSIS

INTRODUCTION

This chapter provides an analysis of the state's general fund since the May 2007 Special Legislative session, including a progression from the ending fund balance for the 2007 biennium, the revised revenue estimates for the special session, and the resulting projected fund balance at the end of the 2009 biennium.

To assist the reader in locating the section(s) that are of particular interest, the following provides a reference to specific topics in this chapter.

- | | |
|---|---------|
| • 2007 general fund status | Page 17 |
| ○ FY 2007 revenue estimates and collections | Page 18 |
| ○ Summary of FY 2007 | Page 21 |
| • 2009 Biennium general fund outlook | Page 22 |
| ○ Revenue estimates | Page 22 |
| ○ 2009 Biennium Projection | Page 24 |

2007 BIENNIUM GENERAL FUND STATUS

After completion of the 60th Legislature, the unreserved ending general fund balance for the 2007 biennium was projected to be \$458.9 million (Figure 1). This balance was based on: 1) revenue estimates adopted in HJ 2 of the regular session; 2) LFD statutory appropriation and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the estimated impacts of all enacted revenue legislation. The 60th Legislature did not budget for any supplemental appropriations but did include \$16.5 million in the budget for emergencies.

As Figure 1 shows, the revised unreserved general fund balance at the end of the 2007 biennium is now projected to be \$543.5 million. This revised projection is based on preliminary FY 2007 information obtained from the statewide accounting system (SABHRS). This projected balance equals 15.4 percent of anticipated revenues for the 2007 biennium and is \$84.6 million above the balance anticipated after adjournment of the 60th Legislature (May 2007 Special Session).

Figure 1

Comparison of 2007 Biennium General Fund Balance Post Special Session Fiscal Report vs. Current Analysis (In Millions)			
	Fiscal Report 2007 Biennium	LFD Analysis 2007 Biennium	Difference 2007 Biennium
Beginning Fund Balance	\$299.792	\$299.792	\$0.000
Revenues			
Current Law Revenue	3,476.823	3,538.038	61.215
Total Funds Available	\$3,776.615	\$3,837.830	\$61.215
Disbursements			
General Appropriations	3,006.255	3,010.377	4.122
Statutory Appropriations	271.754	269.448	(2.306)
Non-Budgeted Transfers	68.915	67.099	(1.816)
Anticipated Reversions	(48.476)	(79.412)	(30.936)
Total Disbursements	\$3,298.448	\$3,267.512	(\$30.936)
Adjustments	(19.224)	(26.776)	(7.552)
Projected Ending Fund Balance	\$458.943	\$543.542	\$84.599

The increase in the projected general fund balance is primarily due to revenue collections and reversions being higher than anticipated by the 60th Legislature. Preliminary total general fund revenues (excluding prior year revenue adjustments) are \$61.2 million more than anticipated (as projected by the LFD during the 2007 session), while disbursements (excluding prior year disbursement adjustments) are \$30.9 million less than authorized by the legislature. Fund balance adjustments were a negative \$7.6 million as compared to the budgeted amount.

REVENUE ESTIMATES AND COLLECTIONS

Column 2 of Figure 2 shows the FY 2007 revenue estimates for the general fund account as adopted in HJ 2 during the 2007 regular legislative session as adjusted for enacted legislation. The adjacent columns in the table show actual collections, the amount collections were over or (under) the estimate, the percent difference, and the contribution percent. The contribution percent signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 45.0 percent of the total general fund collections, while wine taxes accounted for only 0.10 percent during FY 2007. This column of information shows that about 71.4 percent of general fund revenue collections in FY 2007 came from individual (45.0%), property (10.4%), vehicle (6.3%), and corporate (9.7%) taxes.

Figure 2

General Fund Receipts By Major Component Fiscal 2007					
Revenue Category	Estimated 2007 Receipts *	Actual 2007 Receipts	Over(Under) Estimate	Percent Difference	Contribution Percent
GF0100 Drivers License Fee	\$3,918,000	\$4,607,782	\$689,782	17.61%	0.25%
GF0200 Insurance Tax	60,241,000	61,074,266	833,266	1.38%	3.33%
GF0300 Investment Licenses	6,002,000	6,094,835	92,835	1.55%	0.33%
GFxxxx Vehicle Fee/Tax	117,086,000	116,454,885	(631,115)	-0.54%	6.34%
GF0600 Nursing Facilities Fee	5,814,000	5,712,071	(101,929)	-1.75%	0.31%
GF0700 Beer Tax	2,922,000	3,034,266	112,266	3.84%	0.17%
GF0800 Cigarette Tax	34,516,000	35,829,932	1,313,932	3.81%	1.95%
GF0900 Coal Severance Tax	9,813,000	10,919,266	1,106,266	11.27%	0.59%
GF1000 Corporation Tax	161,057,000	177,503,707	16,446,707	10.21%	9.67%
GF1100 Electrical Energy Tax	4,698,000	4,564,404	(133,596)	-2.84%	0.25%
GF1150 Wholesale Energy Trans Tax	3,814,000	3,651,024	(162,976)	-4.27%	0.20%
GF1200 Railroad Car Tax	1,631,000	1,614,509	(16,491)	-1.01%	0.09%
GF1300 Individual Income Tax	793,847,000	827,145,498	33,298,498	4.19%	45.04%
GF1400 Inheritance Tax	706,000	838,865	132,865	18.82%	0.05%
GF1500 Metal Mines Tax	9,048,000	8,991,415	(56,585)	-0.63%	0.49%
GF1700 Oil Severance Tax	86,241,000	96,334,992	10,093,992	11.70%	5.25%
GF1800 Public Contractor's Tax	3,883,000	5,566,958	1,683,958	43.37%	0.30%
GF1850 Rental Car Sales Tax	2,875,000	2,976,235	101,235	3.52%	0.16%
GFxxxx Property Tax	192,084,000	190,981,940	(1,102,060)	-0.57%	10.40%
GF2150 Lodging Facilities Sales Tax	11,290,000	12,916,075	1,626,075	14.40%	0.70%
GF2250 Retail Telecom Excise Tax	21,255,000	21,065,843	(189,157)	-0.89%	1.15%
GF2300 Tobacco Tax	4,401,000	4,669,627	268,627	6.10%	0.25%
GF2400 Video Gaming Tax	59,871,000	60,641,063	770,063	1.29%	3.30%
GF2500 Wine Tax	1,705,000	1,774,838	69,838	4.10%	0.10%
GF2600 Institution Reimbursements	11,451,000	10,669,017	(781,984)	-6.83%	0.58%
GF2650 Highway Patrol Fines	4,926,000	4,155,144	(770,856)	-15.65%	0.23%
GF2700 TCA Interest Earnings	27,482,000	33,951,447	6,469,447	23.54%	1.85%
GF2900 Liquor Excise Tax	13,639,000	13,981,692	342,692	2.51%	0.76%
GF3000 Liquor Profits	7,593,000	8,200,000	607,000	7.99%	0.45%
GF3100 Coal Trust Interest Earnings	29,959,000	32,334,879	2,375,879	7.93%	1.76%
GF3300 Lottery Profits	8,345,000	11,420,242	3,075,242	36.85%	0.62%
GF3450 Tobacco Settlement	2,822,000	2,861,266	39,266	1.39%	0.16%
GF3500 U.S. Mineral Leasing	28,680,000	28,220,719	(459,281)	-1.60%	1.54%
GF3600 All Other Revenue	35,042,000	19,113,116	(15,928,884)	-45.46%	1.04%
Total Current Year Revenue	\$1,768,657,000	\$1,829,871,817	\$61,214,817	3.46%	99.65%
Prior Year Adjustments	9,897,000	6,430,868	(3,466,132)	-35.02%	0.35%
Residual Equity Transfers	0	0	0		0.00%
Total Revenue	\$1,778,554,000	\$1,836,302,685	\$57,748,685	3.25%	100.00%

* House Joint Resolution 2 Regular Session revenue estimates as adjusted for enacted legislation.

At the bottom of Figure 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow in the account.

Figure 3 shows aggregate revenue estimates and collections for the general fund account. The 60th Legislature adopted a total FY 2007 general fund account revenue estimate of \$1,768.7 million. The Legislature assumed prior year revenue adjustments of \$9.9 million but did not anticipate any residual equity transfers. Total collections (including adjustments and transfers) were \$1,836.3 million or \$57.7 million (3.2 percent) above the estimated amounts.

Figure 3

General Fund Revenue Recap Fiscal 2007					
Account	Revenue Category	Estimated Receipts	Fiscal 2007 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts*	\$1,768,657,000	\$1,829,871,817	\$61,214,817	3.46%
---	Prior Year Adjustments	9,897,000	6,430,868	(3,466,132)	-35.02%
---	Residual Equity Transfers	0	0	0	
	Totals After Adj. & Trsf.	\$1,778,554,000	\$1,836,302,685	\$57,748,685	3.25%

* House Joint Resolution 2 Regular Session revenue estimates adjusted for enacted legislation.

Total current year revenue collections (before prior year revenue adjustments) were \$61.2 million above the amount anticipated by the 60th Legislature. The legislature did not include any prior year revenue adjustments in HJ 2 but the \$9.9 million shown in Figure 3 was included as an aggregate amount in the general fund balance sheet. Since this type of revenue is the result of revenue accruals and/or uncollected previous years' receipts, it is difficult to include an estimated amount by revenue source in the revenue estimate resolution. As shown in Figures 2 and 3, however, prior year revenue adjustments were \$6.4 million. Most of these adjustments were due to actual revenues received in July and August of FY 2007 being different than the accrued amounts booked during fiscal year end 2006. While most revenue categories include prior year revenue adjustments, individual income tax, oil and gas production tax, and institution reimbursements accounted for a significant portion of prior year activity.

Figure 4

Reasons for Changed Revenue Receipts Fiscal 2007 (In Millions)		
Revenue Source	Amount	Preliminary Explanation
Individual Income Tax	\$33.3	Non-wage income growth
Corporation Income Tax	16.4	Audits
Oil & Natural Gas Production Tax	10.1	Commodity price and production
TCA Interest	6.5	Invested balance and interest rates
Lottery Profits	3.1	Larger jackpots
Coal Trust Interest Earnings	2.4	Interest rates
All Other Revenue	(15.9)	SABHRS entry error, delayed sale
Remaining Revenue Sources	5.3	Numerous Explanations
Total Change	\$61.2	

Figure 4 summarizes which major sources of revenue exceeded or were below the revenue estimate and provides a brief explanation of why collections were different than anticipated. As shown, individual, corporation, and oil and gas production taxes were the primary sources responsible for increased revenue collections. From an economic viewpoint, higher commodity prices and interest rates were the "drivers" behind the improved revenue condition. The category of "All Other

Revenue" was \$15.9 million below the HJ 2 revenue estimate. A significant portion of this amount (\$8.2 million) was due to an encoding error in the state accounting system. This error has been corrected and will be shown as a prior year revenue adjustment in FY 2008. An additional \$3.5 million shortfall was due to the Missoula Armory not being sold in FY 2007. It is anticipated this sale will take place in FY 2008.

DISBURSEMENTS AND REVERSIONS

Figure 5 shows general fund account disbursements and reversions for FY 2007. General fund disbursements (excluding prior year disbursement adjustments) were \$58.2 million less than authorized by the legislature. Since total reversions budgeted by the 60th Legislature were \$27.3 million, “unanticipated” reversions before adjusting for continuing authority were \$30.9 million. Of this amount, \$2.9 million is authorized to be re-established (continued) into FY 2008. This means that the “true” unanticipated reversion amount was \$28.0 million.

The primary agencies with significant reversions were the Legislative Branch (\$3.6 million), Judiciary (\$1.2 million), Office of Public Instruction (\$22.4 million), Commissioner of Higher Education (\$4.4 million), Department of Natural Resources (\$3.2 million), Department of Corrections (\$4.6 million) and Department of Public Health and Human Services (\$5.4 million).

Figure 5

General Fund Account Disbursements and Reversions Fiscal 2007	
Budgeted Disbursements	\$1,759,006,000
Actual Disbursements	<u>1,700,773,486</u>
Total Reversions	\$58,232,514
Budgeted Reversions	<u>(27,297,000)</u>
Unanticipated Reversions	\$30,935,514
Less Continuing Authority	<u>2,945,985</u>
Total Net Reversions	27,989,529

FUND BALANCE ADJUSTMENTS

During FY 2007, there were prior year revenue and disbursement adjustments, direct adjustments to fund balance, and SABHRS to GAAP (Generally Accepted Accounting Principles) reconciliation items. In total, these adjustments decreased the general fund account ending fund balance by about \$7.6 million more than anticipated by the legislature (shown in Figure 1).

SUMMARY OF FY 2007 INFORMATION

As stated earlier, the preliminary general fund account unreserved, undesignated ending balance for FY 2007 is \$543.5 million, or \$84.6 million above the level anticipated by the 60th Legislature. The reasons, as previously discussed, are summarized in Figure 6.

As noted earlier, there was an accounting error that resulted in an understatement of FY 2007 revenues of \$8.2 million. If this error had not occurred, revenue collections would have exceeded the revenue estimate by \$69.4 million instead of the \$61.2 million shown in Figure 6. A correcting entry has been made to the FY 2008 accounting records.

The additional revenue received in FY 2007 is in line with the recommendation of Legislative Fiscal Division (LFD) during the regular and May special sessions. Staff of the LFD recommended to the legislature that FY 2007 revenue collections were “on track” to exceed the HJ 2 revenue estimate by about \$63 million. The legislature did not include the LFD recommendation in the HJ 2 revenue estimate.

Figure 6

Reasons for General Fund Balance Change Fiscal 2007 (In Millions)	
Explanation of Fund Balance Change	Amount
Beginning Fund balance	\$0.0
Revenue Collections (Actual - Estimated)	61.2
Disbursements (Budgeted - Actual)	30.9
Fund Balance Adjustments	<u>(7.6)</u>
Prior Year Revenue/Expenditure Adjustments	(6.0)
Other Adjustments	(1.6)
Total Change	\$84.5

2009 BIENNIUM GENERAL FUND OUTLOOK

INTRODUCTION

The state's financial picture is probably the best the state has faced in a number of years. Not only are anticipated revenues above the level of funding needed to fund the level of services authorized by the 60th Legislature, the projected ending fund balance for the current biennium is well above an ending fund balance reserve adopted by previous legislatures. Because this balance is so high, the special session legislature should be mindful of the structural balance in the 2009 biennium before these funds are used to implement policies that will require additional funding in subsequent biennia.

However, federal deficits, pension unfunded liabilities, labor negotiations, rising health care costs, bulging corrections populations and national economic uncertainties could be significant budget "busters" as the biennium proceeds. The prospect of federal cutbacks, the continued threat of terrorism attacks, and the on-going US war with Iraq makes the job of maintaining a structurally balanced budget an extremely difficult task.

As delineated in Section 5-18-107(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." In addition, sections 5-12-302(2) and 5-12-307(7) specifically require the Legislative Fiscal Analyst (LFA) to "estimate revenue from existing and proposed taxes" and also require the LFA to "assist the revenue and transportation committee in performing its revenue estimating duties...". Since the Governor's call on such short notice did not allow time for the formulation of revised revenue estimates, the estimates contained in HJ 2 of the regular legislative session are the official estimates of the legislature. The following section provides background information on HJ 2, the revenue estimating resolution.

HOUSE JOINT RESOLUTION 2

On November 16, 2006, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal years 2007, 2008 and 2009. The actions of the committee were formalized by directing staff to prepare a bill draft, HJ 2, the revenue estimate resolution. This process was in accordance with 5-18-107, MCA, which states that these estimates "constitute the legislature's current revenue estimates until amended or until final adoption of the estimates by both houses." HJ 2 was drafted by staff and was introduced by Representative Lake at the beginning of the 60th Legislature. During the legislative process, the House chose not to amend HJ 2, and did not transmit the resolution to the Senate. Although the resolution was not formally adopted by the legislature, the estimates contained within the resolution were used to balance the state's general fund budget.

In addition to the revenue estimates contained in HJ 2, any legislation enacted by the 60th Legislature could impact the amount of general fund revenue received in each fiscal year. The financial impact of enacted legislation is usually summarized in fiscal notes prepared during the legislative session. Figure 7 shows the total amount of general fund revenue anticipated by fiscal year using the HJ 2 amounts plus the legislation impacts adopted during the regular and May special sessions. Figure 7 reflects the total amount of general fund revenue anticipated by fiscal year.

Figure 7

House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$766.566	\$850.648	\$1,562.769	\$1,617.214	44.36%
2 Property Tax	10.40%	177.639	192.084	198.117	206.859	369.723	404.976	55.47%
3 Corporation Income Tax	9.00%	153.675	161.057	161.271	167.064	314.732	328.335	64.48%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.53%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.53%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.121	64.062	119.036	126.183	73.99%
7 Coal Trust Interest	1.82%	31.106	29.959	29.916	29.630	61.065	59.546	75.63%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.30%
9 All Other Revenue	1.87%	31.867	35.042	32.793	32.873	66.909	65.666	79.11%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.32%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.49%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.09%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.27%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.28%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.235	101.299	178.804	202.534	90.84%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.607	9.827	31.808	19.434	91.37%
17 Public Institution Reimbursements	0.75%	12.728	11.451	13.507	12.810	24.179	26.317	92.09%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.76%
19 Coal Severance Tax	0.56%	9.597	9.813	9.864	9.438	19.410	19.302	93.29%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.12%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.96%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.33%
23 Lottery Profits	0.53%	9.110	8.345	8.794	9.300	17.455	18.094	96.82%
24 Liquor Profits	0.44%	7.450	7.593	7.907	8.307	15.043	16.214	97.27%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.58%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.58%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.85%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.35%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.63%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.81%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.02%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.26%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.48%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.73%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,708.166</u>	<u>\$1,768.657</u>	<u>\$1,769.903</u>	<u>\$1,875.479</u>	<u>\$3,476.823</u>	<u>\$3,645.382</u>	100.00%

2009 BIENNIUM PROJECTION

Figure 8 shows the projected general fund balance for the 2009 biennium. Amounts shown include the revenue estimates as discussed above and the cost of operating state government based on appropriations adopted by the 60th Legislature. Also included in this figure are estimated amounts by LFD staff for statutory appropriations, budgeted transfers, and reversions. The figure shows the anticipated general fund balance before and after the executive proposals.

As Figure 8 shows, the 2009 biennium ending general fund balance is projected to be a positive \$207.3 million before any executive proposals or initiatives for wildfire costs are considered. It should be noted that this balance is based on no supplemental appropriations for FY 2009 but does include \$16.5 million for emergency appropriations.

Figure 8 also shows the projected general fund balance when the special session feed bill and the executive proposals for wildfire costs are included. The executive proposes to increase general fund appropriations by \$61.0 million during the 2009 biennium. Appropriations for the Department of Natural Resources and Conservation would be increased by \$49.0 million and the budget for the Department of Military Affairs would be increased by \$3.0 million. The executive is also requesting the statutory emergency appropriation be increased from \$16.0 million to \$25.0 million for an increase of \$9.0 million. When these amounts are included, the projected ending fund balance for the 2009 biennium is \$146.2 million.

DETAILED GENERAL FUND BALANCE

Figure 9 shows the detailed general fund balance sheet based on budgeted revenues and disbursements, followed by a sub-table that shows the projected balance when the executive's proposals are included. Figures 8 and 9 incorporate the financial impacts of the "trigger" mechanisms contained in HB 2 (general appropriations act) and HB9 (\$400 tax rebate) adopted during the May 2007 Special Session.

During the May 2007 Special Session, the legislature enacted two bills that contain fiscal policy "triggers" that are dependent upon the amount of general fund revenue received in FY 2007. The two bills enacted were HB 2 and HB 9.

HB 2 appropriates up to \$30.0 million to the Office of Public Instruction for distribution to schools for capital investment and deferred maintenance payments. This appropriation is contingent upon FY 2007 revenues exceeding \$1,762,355,000. Based on a letter of certification from the Department of Administration, total general fund revenues in FY 2007 were \$1,838,053,331. Therefore, the maximum amount of \$30.0 million is appropriated to the Office of Public Instruction for distribution to public schools.

Figure 8

2009 Biennium General Fund Balance In Millions	
Beginning Fund Balance	\$543.5
Revenues	<u>3,645.4</u>
Available Funds	\$4,188.9
Disbursements	
General Appropriations	3,268.9
Statutory Appropriations	432.1
Transfers	235.2
Miscellaneous Appropriations	50.2
Supplementals	0.0
Session Costs	11.0
Reversions	(7.5)
Totals Disbursements	3,989.8
Adjustments	8.2
Ending Fund Balance	\$207.3
Special Session Feed Bill	0.168
Executive Proposal for Wildfire Costs	61.000
Ending Fund Balance With Proposals	\$146.2

HB 9 contains a similar “trigger” except that the available funds are to be used for tax credits to be claimed on individual income tax returns. This trigger is based on FY 2007 general fund revenues exceeding \$1,802,000,000. As stated above, the certified revenue amount was about \$1.838 billion which is \$36 million (when rounded to the nearest million) more than the triggered amount. This means that taxpayers will receive \$36 million in tax credits that will be claimed on their 2007 tax returns. Individual taxpayers will receive approximately \$140 in tax credits.

Figure 9

2009 Biennium General Fund Balance						
Action By the 60th Legislature With Preliminary Fiscal 2007 and Trigger Adjustments						
In Millions						
	Actual Fiscal 2006	Preliminary Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Preliminary 2007 Biennium	Estimated 2009 Biennium
Beginning Fund Balance	\$299.792	\$422.210	\$543.542	\$273.061	\$299.792	\$543.542
Revenues						
Current Law Revenue	1,708.166	1,829.872	1,797.764	1,875.209	3,538.038	3,672.973
Legislation Impacts	-	-	(27.861)	0.270	-	(27.591)
Total Revenue	\$1,708.166	\$1,829.872	\$1,769.903	\$1,875.479	\$3,538.038	\$3,645.382
Total Funds Available	\$2,007.958	\$2,252.082	\$2,313.445	\$2,148.540	\$3,837.830	\$4,188.924
Disbursements						
General Appropriations	1,441.188	1,566.962	1,614.569	1,654.289	3,008.150	3,268.858
Statutory Appropriations	120.226	149.222	265.028	167.095	269.448	432.123
Miscellaneous Appropriations	1.521	-	9.057	7.746	1.521	16.803
Non-Budgeted Transfers	24.277	42.822	127.561	107.618	67.099	235.179
Continuing Appropriations	-	-	2.946	-	-	2.946
Supplemental Appropriations	-	-	-	-	-	-
Language Appropriations	0.706	-	30.050	0.050	0.706	30.100
Feed Bill Appropriations	-	-	2.280	8.740	-	11.020
Carryforward Appropriations	-	-	0.329	-	-	0.329
Anticipated Reversions	(21.179)	(58.233)	(3.204)	(4.344)	(79.412)	(7.548)
Total Disbursements	\$1,566.739	\$1,700.773	\$2,048.616	\$1,941.194	\$3,267.512	\$3,989.810
Adjustments	(19.009)	(7.767)	8.232	-	(26.776)	8.232
Reserved Ending Fund Balance	\$422.210	\$543.542	\$273.061	\$207.346	\$543.542	\$207.346
Unreserved Ending Fund Balance	\$422.210	\$543.542	\$273.061	\$207.346	\$543.542	\$207.346
Special Session Feed Bill			0.168	-	-	0.168
Executive Proposals						
Department of Natural Resources			39.000	10.000	-	49.000
Department of Military Affairs			3.000	-	-	3.000
Emergency Appropriation Increase			4.500	4.500	-	9.000
Total Executive Proposals			\$46.500	\$14.500	\$0.000	\$61.000
Unreserved Ending Fund Balance With Proposals			\$226.393	\$146.178	\$543.542	\$146.178

In summary, if the legislature adopts the executive proposals for wildfire costs, the general fund balance at the end of the 2009 biennium will be \$146.2 million provided there are no supplemental appropriations needed for other state services.



OTHER FIRE RELATED BUDGET REFERENCE DOCUMENTS

In addition to this analysis of issues related to the special session, the Legislative Fiscal Division (LFD) produces two other publications that address fire funding:

- Fiscal Pocket Guide – Wildfire Suppression Funding
- Agency Profile – Department of Natural Resources and Conservation (DNRC)

In addition, the 2009 *Legislative Budget Analysis* published just before the 2007 regular legislative session includes a discussion of fire funding and fire funding issues, as does the *Legislative Fiscal Report* published in June following the end of the regular and first special session.

Budget Analysis

- Wildfire Funding/Declining Federal Support – Volume 1, Page 182
- Fire Costs and Funding Options – Volume 5, Page C-135 (DNRC agency overview)

Fiscal Report

- Fire Suppression (summary of legislative action during the regular session) – Volume 4, Page C-107 (DNRC agency overview)

The LFD has also presented a number of reports to the Legislative Finance Committee related to fire funding issues. All of the above mentioned reports are available on the LFD web site at <http://leg.mt.gov/css/fiscal/default.asp>. Please contact the LFD office at 444-2986 for further information.

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



JOHN BOHLINGER
LT. GOVERNOR

TO: Members of the Montana Senate
Members of the House of Representatives
Secretary of State Brad Johnson
Members of the Montana Supreme Court c/o Clerk of the Court Ed Smith

STATE OF MONTANA
OFFICE OF THE GOVERNOR
PROCLAMATION

CALL TO THE 60TH LEGISLATURE
FOR A SPECIAL SESSION

WHEREAS, pursuant to Article V, section 6 of the Constitution of the State of Montana and § 5-3-101, MCA, the Governor may convene the legislature in special session; and

WHEREAS, pursuant to Article VI, section 11 of the Constitution of the State of Montana, the Governor may convene the legislature whenever he considers it in the public interest; and

WHEREAS, since June, extremely hazardous wildland fire conditions have existed throughout the State of Montana; and

WHEREAS, since mid-July, the State of Montana has been under declarations of states of emergency and disaster in order that Montana resources could be committed to responding to the fires; and

WHEREAS, in addition, because of the raging wildfires, twenty Montana counties and the Blackfoot Nation have declared states of emergency or disaster; and

WHEREAS, the cost of fire suppression to the state for the 2007 fire season already exceeds the amount of money appropriated by the legislature to suppress fires over the entire biennium; and

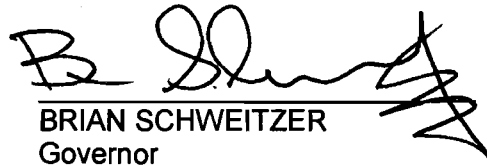
WHEREAS, pursuant to Article V, section 11 of the Constitution of the State of Montana, the power to appropriate money for the operation of state government lies exclusively with the legislative branch of government; and

WHEREAS, it is in the public interest that the legislature promptly convene in special session so as to appropriate money and provide spending authority to pay for the actual and anticipated costs of fire suppression, disaster response, and recovery activities for the 2007 and 2008 fire seasons.

NOW, THEREFORE, I, BRIAN SCHWEITZER, GOVERNOR OF THE STATE OF MONTANA, pursuant to the authority vested in me by the Constitution and laws of the State of Montana, do hereby convene the 60th Legislature in special session, in Helena, at the Capitol, at the hour of 8:00 a.m., the 5th day of September, 2007, and hereby limit the special session to consideration of the following subjects:

1. Appropriations necessary and anticipated for fire suppression, disaster response, and recovery activities in fiscal years 2008 and 2009;
2. Additional spending authority for emergencies and disasters and elimination of time restrictions applicable to declarations of disaster and emergency during fire season; and
3. Any appropriations necessary for the operation of the special legislative session.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Montana to be affixed. DONE at the City of Helena, the Capitol, this 27th day of August, in the year of our Lord, two thousand and seven.


BRIAN SCHWEITZER
Governor